

The Free

"If you don't create a free market, a black market will emerge"

Market



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NEWS

> **LFMI launches a new project on globalisation and free trade**

In June 2006 LFMI launched a project on globalisation and free trade, supported the British Embassy in Lithuania, which aims at evaluating what impact freer trade has had and continues to have on the Lithuanian economy. The project also targets at debunking popular myths about globalisation and free trade.

As part of this project, LFMI is conducting a **research with a view to dispelling the fallacies and myths related to free trade and globalisation**. The research will be presented at a **conference "How can Lithuania Survive on a Global Market?"**, organised in partnership with the British Embassy in Lithuania on 14 September 2006 in Vilnius. The even will focus on the impact of free trade and globalization on Lithuania and address the opportunities and challenges that globalisation poses on Lithuanian businesses acting on the global market.

LFMI will be privileged to host **Mr. Philippe Legrain, a British economist, journalist and writer, as the distinguished guest speaker of the conference**. Mr. Legrain writes about globalisation and European issues.

He was previously chief economist and director of policy for the pro-European pressure group, Britain in Europe, special adviser to WTO director-general Mike Moore, and trade and economics correspondent for The Economist. He has written for various newspapers and magazines, including The Guardian, The Independent, the Wall Street Journal Europe, the FT and the New Statesman. He is the author of Open World: The Truth about Globalisation and is currently writing his second book, on international migration. He is a major advocate of the euro and globalisation.

At present free trade and globalisation attract a lot of bad publicity in Lithuania. This is partly due to the pressure that the post-communist country experiences while adjusting rapidly to changes on the global arena, and partly due to the wide-spread anti-globalist feeling experienced throughout the world. Moreover, such sentiments are not alien to the European Union either (the recent example of the Globalization Fund). Because of a general lack of information on free trade and on how opening of the markets actually boosted the Lithuanian economy, the anti-free-trade moods are being widely exploited by anti-globalists, certain interest groups and those opposed to free enterprise in general. As a result, the media and policy makers are being influenced and swayed by this anti-free-trade propagation.

The conference held by LFMI will be attended by Lithuanian politicians, high ranking government officials, experts, political scientists and media representatives. LFMI expect that this event will introduce a more informed position on the effects of globalization, encourage public debates and promote the ideals of the free market.

> **LFMI will commemorate the 125th birth anniversary of Ludwig von Mises**

The year 2006 marks the 125th birth anniversary of Ludwig von Mises, one of the most prominent economists and philosophers of the 20th century. To commemorate this occasion, LFMI is organising a writing contest for students dedicated to Mises's works and is publishing a 2nd edition of Mises's *Economic Policy. Thoughts for Today and Tomorrow*.

On 29th of September, the exact date of Mises' birth, LFMI will hold a seminar for students and the academia to present the ideas of Ludwig von Mises. During the

even LFMI will also launch the book *Economic Policy* and announce the winners of LFMI's writing contest *Freedom Studies*.

LFMI will be honoured to host Prof. Hans Hermann Hoppe as the guest speaker of the even who will speak on Mises's ideas and his role in the economics history. Mr. Hoppe is the author of eight books and more than one hundred articles in books, scholarly journals, and magazines of opinion. As an internationally prominent Austrian School economist and libertarian philosopher, he has lectured all over the world and his writings have been translated into twenty languages. Prof. Hoppe lectured in Lithuania several times, every time attracting enthusiastic audiences.

> Business leaders, trade unions and LFMI call for cutting income taxes more rapidly

Initiated by the Lithuanian Free Market Institute (LFMI), twelve business associations and trade unions signed and submitted an appeal to the Lithuanian Government and parliamentary parties, urging the authorities to launch a more significant reduction of taxation of labour without further delay.

The signatories welcomed the reduction of the personal income tax to 27 percent which took effect from 1 July 2006 but stressed this was not enough to increase the competitiveness of the Lithuanian economy and people's welfare, as taxation of labour in Lithuania still remains one of the highest in the European Union. They pointed out that the current economic situation and growing budget revenues build conditions for more substantial tax cuts and proposed concrete steps.

Representatives from business associations, trade unions and policy analysts suggested lowering the rate of personal income tax to 20 percent not later than from 1 January 2008 and to 15 percent from 1 January 2009 (if GDP continues to grow by at least 5 percent in 2007). They also put forth a proposal (except the trade unions) to set an upper ceiling on social security contributions which would amount to five average wages in Lithuania.

In line with the proposed tax cuts, the signatories urged the authorities to revise budget expenditures and to ensure a more effective use of tax-payer money.

According to signatories, significant lowering of income taxes would kick-start the Lithuanian economy and attract investments; increased investments and a lower income tax would augment wages; and legalisation of the informal sector and intensified economic activity would generate more revenues to the national budget.

The appeal signed by a group of associations and LFMI was submitted to Lithuanian authorities on 29 June 2006.

> LFMI proposes to soften the rules of competition

On 21 June 2006 LFMI staged a seminar "Competition Law and its Application in Lithuania" to debate the existing situation with competition law in Lithuania, its application and tendencies. At the event, lawyers, policy analysts and government representatives searched for ways how to solve problems arising in applying competition law and analysed the interrelation of state

institutions supervising competition in Lithuania. LFMI presented an in-depth study on competition law and its application in Lithuania.

The study conducted by LFMI shows that competition policy is directed towards modelling relations on the market and restricting the handling of private property and private settlements, rather than towards eliminating the genuine threats to competition and reducing government-erected constraints. Such practice, argues LFMI, undermines the underpinnings of competition and the market.

LFMI's President and a co-author of the study Dr. Remigijus Šimašius highlighted that competition law and its rigid application often forces companies to adopt unsound decisions and to refrain from expanding their business activities, merging, reverting to other forms business organisation and coordinating actions even when it is crucial. "Business decisions are trapped under a magnifying glass, but the real roadblocks to competition – state privileges, regulations, various restrictions, government support and exemptions – remain our everyday life," - commented Mr. Šimašius.

LFMI proposes to soften the rules of competition and allow the market itself to reveal the most effective solutions, rather than burdening businesses with additional regulatory and bureaucratic load. LFMI believes that it is especially important to revise the rules of *ex ante* regulation of specific markets (e.g. the telecommunications and the energy sectors) as they frequently create only an illusion of the market and forces it into stagnation.

The study on competition law done by the Institute presents an overview and evaluation of competition policy, regulation and the basic aspects of its implementation. It also analyses the functions of the Lithuanian Competition Council and the practice of how these functions have been performed. They include cartel agreements, supervision of concentration, control of dominating economic agents, market research and others. The study also provides recommendations regarding the principles of further regulation of competition. The study is written in Lithuanian only.

> LFMI proposes to let competition into the heating sector

On 7 June 2006 LFMI staged a seminar "Solving the Problems in the Heating Sector: Market and Administration" to discuss economic problems in the heating market related with the heating price, relations with suppliers and consumers, models of cooperation between the government and the business, and opportunities of competition and the impact of regulation in the heating market. At the event LFMI presented formulated proposals on how to solve problems in the heating sector as well as regulation and prospects of cogeneration in Lithuania.

LFMI thinks that to amend the situation in the heating sector it is indispensable to open the door to competition and to relinquish price regulation, *ex ante* regulation and cross subsidizing. It is also necessary to continue privatization of the energy sector and the heating market,

to separate social support from the heating market and abolish a VAT exemption for heating services, to remove legal obstacles to production of renewable energy sources and at the same time reduce ineffective support for this type of energy, etc.

In LFMI's opinion, cogeneration (joint production of heating and electricity) can be competitive on the market in certain cases and would be quite effective in Lithuania. However, the Institute points out that extra support for, or protectionism of, cogeneration is unjustified and inexpedient and proposes not to grant any support or fix quotas, only where EU law requires so.

LFMI concludes that in general not deregulation, but re-regulation is talking place in the Lithuanian energy and heating sectors. However, to dovetail short- and long-term goals and achieve effectiveness in these markets, genuine deregulation of prices, standards, licensing and permits, zoning, etc. is needed. Deregulation would detach this economic sector from political decisions and instability. LFMI believes that the Lithuanian energy sector - competing on the market, with minimal government regulation and driven by economic rather than political logic - would be considerably safer, more flexible and credible than under the existing conditions.

› LFMI targets migration policy

On 25 April 2006 LFMI held a conference on migration strategies and presented a research and proposals regarding Lithuanian migration policy. Participants of the event - representatives from government, business and NGO sectors - debated the causes and effects of migration and the impact of various economic policy measures on people's self-determination to emigrate and to comeback to Lithuania in the future. The event focused on government's approach to, and potential decisions regarding, migration.

LFMI is of the opinion that Lithuanian government institutions should aim at creating conditions to accelerate the growth of wages in the country rather than at searching an unattainable panacea from migration. It is impossible, argues LFMI, to identify and set a finite list of migration causes as people view and react differently towards the same social, economic, cultural and other circumstances. LFMI points out that only several factors influencing migration decisions are within the competence of the government or can be affected by government-imposed tools.

The Institute proposes the Lithuanian government not to set a political goal to halt emigration by all possible means but rather treat migration as an expression of pursuit of personal happiness. LFMI highlights that migrants point to meagre income and unemployment as the core reason for emigration and that employment regulation at present is especially rigid and meticulous in Lithuania. Drawing on these facts, LFMI recommends the Lithuanian government focusing attention on eliminating economic causes of migration.

Specific means proposed by LFMI are a reduction of personal income tax to 15 percent, elimination of the controversial temporary "social" tax for companies, refraining from levying new taxes, creating conditions for

individual, not collective, settlement of employment conditions between employers and employees and easing an overall administrative burden for businesses.

LFMI also calls for a speedier completion of the land restitution process and for reforming territorial planning by granting the owner the primary power to decide how the land will be used, taking into account neighbours interests. These tools would attract investments, argues LFMI, that have been languishing for several years now. In addition to that, the Institute stresses the need to overhaul the Lithuanian education system as it also has affects on migration.

The study will soon appear at LFMI's website in English.

› European think-tanks fight against harmonisation of corporate tax base

On 11 April 2006, the Lithuanian Free Market Institute initiated a petition against the efforts of the European Commission to create a Common Consolidated Corporate Tax Base (CCCTB), which was signed and disseminated by 30 European economic research institutes and individuals (the list is below). The Petition was submitted to the European Commission, the European Parliament and the Council of Europe as well as national governments and mass media of the member states.

The Petition came as a reaction to the Commission's communicate on the progress made and the next steps proposed to be made towards creating the CCCTB. A group of European free-market oriented think tanks have undersigned the petition urging all EU member states to oppose this harmful initiative of setting uniform corporate tax rules across the EU as it would undermine the euro zone's competitiveness in the global economy, pose enormous tax-compliance costs for all businesses without exception and in general fail to achieve the goals envisaged for tax harmonisation.

Given that the benefits of the CCCTB are questionable and the shortcomings are obvious, the signatories urged the European community to undertake the following actions. First, EU member states were called on to oppose the initiative towards the harmonisation of the corporate tax base and further moves aimed at creating a tax cartel among EU member states. Second, high-tax EU member states advocating tax harmonisation were encouraged to move their own tax systems closer to those competitive tax regimes that bolster economic growth. Third, the business community should bear in mind that harmonisation of the corporate tax base would not tackle, and would not even build preconditions to tackle, the defects of corporate taxes existing in national laws (which abound in all member states), but would inflict new administrative costs instead. Therefore, the business community was recommended not to endorse the idea of harmonising the corporate tax base, but use this opportunity to call on their national governments to eradicate the deficiencies of national corporate taxes and announce publicly its position on the harmonisation of the corporate tax base.

In addition to that, LFMI had prepared analytical material on harmonisation of the corporate tax base which looks

into the goals set for corporate tax harmonization and discusses their justification and relevance. The study will also analyze the arguments used to vindicate the proposed consolidation of the corporate tax base as the only suitable measure to reach these goals and will evaluate its appropriateness, effectiveness and potential negative implications. At the end of this document generalised implications of tax harmonisation, conclusions and recommendations are provided. The study is presented in English (www.freema.org | Tax policy | Research).

Currently, further preparation of the CCCTB legislation is taking place at the European Union. It is likely that supporters and opponents of this idea will have a long road before it comes into reality. As Gerrit Zalm, the Dutch finance minister, said asked to put a timeframe on the proposal for a CCCTB: "Not in ten years and I am being optimistic."

> Market participants: growing salaries and the economy still fail to halt emigration

In April 2006 LFMI released the 17th survey of the Lithuanian economy presenting estimates of 2005 and forecasts for 2006 (updated).

According to the survey of market participants conducted by LFMI in January to February 2006, the economic situation in Lithuania will remain stable in 2006 and the coming year and will be better predicted previously. Economic indicators remain rather high; trade is continuing to grow, the financial situation of businesses is improving, and so is the financial situation of Lithuanian households.

In this survey greater attention was given to situation in the labour market. According to market participants, the average salary was growing very fast in 2005, and this trend is continuing into this year. The indicators of unemployment – to the contrary – have fallen radically over the last year, and this downward trend should continue in 2006. Rapid changes in market participants' prognoses show their concern with emigrating workers, stagnated situation in the education sector, and harsh - and increasing - competition in the labour market.

Emigration, competition for labour, and fast economic growth are contributing to rapid salary growth. In turn, bigger monthly salaries, together with the money that Lithuanians working abroad are sending back to their families, contribute to improving financial situation of Lithuanian households. Greater income fuels consumption and expansion of internal market, which in turn stimulates economic growth. However, the consumption also contributes to an increase in prices, which have been growing considerably faster in the last couple of years.

Market participants' optimism was also shadowed by the still high levels of shadow economy, high tax burden, negligible levels of foreign investment, massive emigration wave, also lack of strategic planning in the government, all of which could prevent the economy from keeping up high growth rate in the future.

> Interests of Lithuanians lose way in the conveyer of implementing EU internal market laws

In June 2006 LFMI announced the results of a project conducted jointly with Lithuanian business associations, lawyers and journalists which aimed to monitor how EU law is and has been implemented in Lithuania. The project shows that the process of transposing EU requirements into the Lithuanian law fails to properly take into account the interests of Lithuanian society; crucial decisions between alternatives are adopted in haste and without detailed public debates; in certain cases EU law is used as a cover for pushing "needed" rather than required decisions; and more rigid provisions are transferred into the national law than required by EU law.

The project participants point out that implementation of EU directives has significant impact on the Lithuanian economy and citizens and thus urges the authorities to take measures towards overhauling this process. According to official reports, Lithuania scores best in writing EU requirements into national law: Lithuanian has not implemented only six EU directives, which accounts for 0.4 percent of the entire EU legislation.

More about the finding of the project – see a commentary by Dr. Remigijus Šimašius 'Are We Listening to the European Union or Fooling Around?' presented in this issue of 'The Free Market.'

> The Baltic States debated the two-year experience in the EU

On the occasion of the second anniversary of the accession of the Baltic States to the European Union, on 12 May 2006 the Lithuanian Free Market Institute, in cooperation with International support foundation "Euroregion Livonia-Baltic" and Friedrich Naumann Foundation, staged an international conference "The Baltic States in the European Union: Two-Year Experience and Prospects"

The goal of the conference was to bring together experts, public leaders, political analysts, business people and politicians from the Baltic States and neighbouring non-EU countries to evaluate the Baltic countries' experience in the European Union and their opportunities and threats. The conference was also aimed at promoting better policies of the Baltic States in seeking the best results from the EU membership.

The event drew about 50 participants, including members of the European and the Lithuanian parliament, government officials, ministry executives, business people and representatives of major business associations, international institutions, academia and mass media.

> LFMI takes part in debates on the adoption of the euro

On 2 June 2006 LFMI's Vice President Dr. Guoda Steponavičienė took part in an informal discussion "Tendencies of Price Growth in Lithuania and possibilities to Curb it," staged by the President's Office of Lithuania.

Prominent Lithuanian economists, policy analysts and representatives from the Lithuanian Government and

Ministries of Finance and Foreign Affairs debated what measures should be employed to ameliorate the current situation when seeking to join the euro zone. The participants also analysed the forecasts of inflation and its causes, what tools, compatible with the market economy, could be invoked to restrict price growth in the country and other issues.

In May 2006 the European Commission officially declared that Lithuania had failed to fulfil the Maastricht criterion set up for inflation, thus closing the door for Lithuania's entering the euro zone from 2007 as planned.

In light of this situation and the ensued debate, LFMI issued a press release, urging the Lithuanian authorities to abstain from resorting to artificial, non-market solutions seeking to curb the rise of inflation. Instead, LFMI proposed specific and sound tools for that end and called the Lithuanian Government to trim budget expenditures in the first place.

At the moment Lithuania is debating another date that could be set for entering the euro zone.

› **Tax Freedom Day in Lithuania Receded Markedly in 2006**

According to the Lithuanian Free Market Institute's (LFMI) annual calculations, Tax Freedom Day in Lithuania moved significantly later in the calendar and fell on May 11 this year. In 2006 the average Lithuanian taxpayer had to work 131 days to pay the total tax bill imposed by all levels of government.

The Tax Freedom Day is a symbolic day in the year when the average income earner stops handing over all his income to the government and begins to make money for his own and his family's welfare. It is an indicator of the tax burden in relative terms which shows what portion of the value created by the people is taken by the government to be distributed through the national budget and non-budget funds.

LFMI calculates the tax burden as the ratio of projected total tax revenues to net national product (NNP), based on the methodology used in other countries as well (USA, Canada, UK, etc.). The tax burden, calculated according to this methodology, does not encompass money expenditures and time costs incurred related to tax administration. Government borrowing is not included either, while in Lithuania it is constantly growing and may become a tax burden in the future.

This year Tax Freedom Day in Lithuania arrived even six days later than in 2005. This increase in the tax burden is the result of 2.5 billion litas larger tax revenues in the state budget than in 2005, growing income of the Social Insurance Fund and the Mandatory Health Insurance Fund and also a slower growth of gross national product compared to taxes. The tax burden calculated as the ratio of total tax revenues and NNP will account for 35.9 percent in 2006, as compared to 34 percent last year.

LFMI started the tradition of commemorating Tax Freedom Day in Lithuania in 1993. Since 1993, when the Lithuanian taxpayers turned to the government everything they earned until April 13, Tax Freedom Day has moved later in the calendar. Starting from 2001, Tax

Freedom Day came earlier every year: on May 15 in 2001, on May 4 in 2002 and on May 3 in 2003. In 2004 Tax Freedom Day started to recede again: it came on May 8 in 2004, on May 5 in 2005 and on May 11 in 2006.

› **New President of the Lithuanian Free Market Institute Elected**

On 9 May 2006, a joint meeting of the Lithuanian Free Market Institute's (LFMI) shareholders and the Board elected Dr. Remigijus Šimašius LFMI's new President. Dr. Remigijus Šimašius has been with LFMI for eleven years. Since May 2004 he has served as the Institute's vice president and led the team of LFMI's analysts. As an expert on the Austrian School and legal theory, he has gained recognition in Lithuania and overseas.

In 2002 Mr. Šimašius was awarded a PhD from the Law University of Lithuania for a thesis on legal pluralism in which he combined, as in his other writings, economic, legal and sociological knowledge. Remigijus Šimašius is an active member of the lawyers' community: he lectures on the theory of law at Vilnius University and chairs the editorial board of a journal of applied legal science "Teisės problemos" ("Legal Issues").

Being an authority on the operational principles of NGOs, Mr. Šimašius participated in creating the legal foundations for the non-governmental sector in Lithuania, led a working group to create a new culture of law-making in Lithuania and took an active part in defining provisions of Lithuania's pension reform. Throughout eleven years of activity, Mr. Šimašius' expertise and advice have been instrumental in tax, budget and municipal reform and in promoting free market ideas in many other areas.

Mr. Šimašius has replaced Mr. Ugnius Trumpa who has been LFMI's President since November 2001.

Calculating its 16th year of active performance, the Lithuanian Free Market Institute is a leading free-market NGO in Lithuania and one of champion think tanks in the region, recognised for its active participation and achievements in international debates. LFMI was the pioneer of independent policy advocacy in Lithuania and stood at the forefront of the country's economic and social transition to the free-market economy. Differently from the bulk of non-profit non-political organisations in Europe, LFMI was founded as a result of private initiative alone and has retained its independence through support from private sources.

› **Lithuanian press features LFMI**

On June 2, 2006, the Lithuanian weekly 'Laikas' ('Time') published an article "Many Institutes, Little Use" which looked at the work of scientific research institutes in Lithuania and evaluated their use to the state and society at large.

Much attention in this article has been given to the activities and achievements of the Lithuanian Free Market Institute. As the author of the article writes, "There are over 100 institutes of various types in Lithuania. Some are partly financed by the state, while others operate as non-governmental organizations and rely on donations from Lithuanian and foreign foundations.

Institutes that are visible, demonstrate up-front attitudes and generate products that are useful for the society can be counted on one's fingers, while establishments focusing on micro- and macro-economic issues are even fewer."

Journalist Jūratė Nedveckaitė states in the article that „the young LFMI has even outstripped the Institute of Economics founded by grey-headed economic gurus.“ “Seemingly there is no proper counterbalance to these free-marketeers in Lithuania,” says the author and asks representatives from other scientific, but government funded institutes why LFMI was so popular...

With kind permission from the weekly, LFMI presents the translation of this writing:

“Many Institutes, Little Use”

http://www.freema.org/index.php/menu/newsroom/articles_commentaries/many_institutes_little_use/3409

INTERVIEW

In the following interview LFMI's Vice President Guoda Steponavičienė outlines the basic proposals regarding health reform in Lithuania. It was printed in a specialised magazine Gydytojų žinios (Physicians news) on 14 June 2006.

Healthcare Reform Should Go Along With Economic Laws

Interview with Dr. Guoda Steponavičienė, Vice-President, LFMI

Ten years ago, in 1996, Lithuania gave green light to insurance medicine and embarked on healthcare reform. Yet, the ongoing reform has provoked many controversial judgements and opinions in recent years. We offer here an interview with Vice-President of the Lithuanian Free Market Interview Guoda Steponavičienė about the Lithuanian healthcare reform and global problems of the health sector.

- You often comment on problems of the healthcare reform in your radio and television appearances. We have already got used to the fact that your perspective on healthcare reform differs sharply from the one most of our health officials profess...

- We at LFMI do not call reform that which the Ministry of Healthcare does. In economic terms a reform is supposed to be related to economic concepts of ownership and competition. When we talk about competition in market terms, we have to think of the rise of the market and a tangible growth of the private sector; we have to think of the patient becoming a welcome client but not a pushed-around appendage to the system. True, the healthcare system is undergoing some

restructuring today, but obviously this will not give any structural result. The restructuring of healthcare institutions is but a small element in the overall structural reform and, to our opinion, this element is not even necessary.

- How would you as a vice-president of the Lithuanian Free Market Institute define healthcare reform?

- The core of healthcare reform is to provide for the rise of service prices. And prices are not the same as compensations. We have prices on the pharmaceutical market and we can find out what the prices of medicines are by going to a pharmacy. But in the service market prices are still non-existent, and at the outpatient clinic we can learn the prices of additional services at best. So we cannot talk about effectiveness in today's service market. Effectiveness can be achieved only when healthcare establishments charge competing prices. What we have today is ancillary economic constructs such as compensation and cost. But this is not a price.

How the prices of healthcare services should appear, statutorily or not, is a question of tactics. The result of the reform should be a system in which patients know what the prices of services are, what proportion of the price they are compensated for and how much they have to pay as a surcharge. As to compensations, they have to be applied not only in public healthcare establishments and not only in Lithuania. A situation like this would condition the rise of competition among service providers. Private healthcare institutions are an important element of the reform. And there should be more and more of them.

- Do you think the share of the private sector is too small? What role does the private sector play in the healthcare market?

- No doubt, the private sector is too small. All over the world the private sector pushes healthcare establishments to improve the quality and effectiveness of their services. They lure away patients from public institutions by nothing but better quality. This is the way to spur the public sector. Public organizations in any sector, not only healthcare, are neither flexible nor innovative nor ready to respond promptly to customers' requirements. Strengthening the private healthcare market would kill two birds with one stone: on the one hand, it would absorb a large proportion of patients and it would serve as a catalyst to increase the effectiveness of public service providers on the other. Unlike public establishments, private healthcare institutions have a stronger motivation to work effectively because they have to hold out.

- Sometimes public healthcare providers are also heaped with reproaches. There is much disorganization there; no funds are provided for repair or the renewal of equipment. [Former - comment by LFM] Prime Minister Brazauskas once even voiced an idea that public healthcare establishments should be returned to the budget...

- In terms of control, yes: it is much easier to control budgetary organizations. And the state wants to do that.

The introduction of insurance medicine might have created an erroneous impression that insurance medicine handles people's premiums and not budgetary funds. However, mandatory health insurance has very few features of insurance. There is not much difference whether healthcare services are financed by the Mandatory Health Insurance Fund or the state budget. After all, both sources rely on state funding.

We should go in another direction: healthcare institutions should be put up for auction and privatized. I do not see any other way out. The equivocal status of public healthcare institutions we have today is no good. Their directors are neither public officials who could be easily controlled by administrative methods nor private subjects who are controlled by the market. Accounting standards and practice in public organizations, not only healthcare institutions, are simply impenetrable, so it is very hard to manage them financially. I really do not think that public service providers are a salvation: they have many advantages but they also have many flaws. That is why I think they should turn towards the market but not the budget. What would we gain if public healthcare establishments went back to the budget? - Stricter control and nothing more. This would not create stronger motivations for better services or competition. A possibility of putting them into private ownership would be gone. As a result, we would remain at the same level, but this is not enough for today's healthcare system.

- Officials say that the situation in the healthcare sector is improving and doctor's salaries and service fees are growing.

- Judging from official statements it would seem that everything is getting better and salaries have been raised. However, every doctor would say that this was a very negligible increase. It is absurd for doctors to earn the salaries they do today. Mind you, they are specialists who have alternatives in Europe. Our doctors are forced to win back that which they lose under the pressure exerted on private institutions by migrating and working in the West! How long do we think doctors will keep earning less than the country's average?

- We are at the bottom list of the EU countries in terms of healthcare spending as a share of GDP. And we have had this situation for many years now. Maybe it is cheaper to keep crumbling healthcare institutions than to compensate for private sector services!

- There are no resources to satisfy the demand for healthcare services. And it does not matter whether it is 5 percent of GDP or less. Not a single EU country can apportion as many resources as are required to meet their citizens' healthcare needs. What differs is only the quality of services. Germans would certainly not tolerate the quality we in Lithuania do. We find it amazing but Germans would not think it funny if the rims of glasses which were covered by insurance last year would not be covered by insurance this year. Societies are aging all over Europe. People receive longer treatment, too, so the demand for services will keep growing in the future. We cannot expect to satisfy this demand with budgetary funding. We should set a limit on how much we can

spend on healthcare. We have no other way out but to let consumers set this limit themselves. Every person should say how much he or she can spend on his or her health.

- But it is a question of agreement how much we can apportion to healthcare and compare these allocations with Western criteria.

- I am sceptical of comparison. We lack much of what wealthier countries possess. Of course, the level of healthcare spending is a question of political agreement. But even if we set it, we should not close the door to additional, insurance money. And we already know what the ratio in Lithuania is: compensations from the Mandatory Health Insurance Fund cover 70 percent of services, and we pay, in one way or another, the remaining 30 percent. Unofficial payments comprise a large portion of these funds. The problem is that unofficial payments cripple the whole system and create a parallel one. The worst problem is that patients are baffled and do not know how they should behave when they get sick. There are two systems. One of them is official, but when patients have to deal with it, everything appears to be different as they are required to pay surcharges. Yet, information is unavailable because there are no prices. If this money remained in one system, we would have an absolutely different picture. We would have insurance that would alleviate the existing tension at least for the statistical average consumer.

- You suggest putting healthcare on the market railing, but one of the key criteria in the European Union is social justice in healthcare service provision. This system differs from the one operating in the U.S., where private sector services prevail.

- There are many myths about the American healthcare system, but this is not because there is too much market in healthcare provision there but because there is too little of it. The prices of healthcare services and insurance coverage are outrageous, but this is caused by state regulation because the state requires unrealistic terms of insurance which in turn push the prices up.

European countries have different healthcare models, but all of these models are in a crisis. EU countries are unable to maintain their extensive and generous systems, and they cannot satisfy the demand for healthcare services. Ensuing problems are reflected in different ways: the French healthcare system has a continuously high financial deficit, while England suffers heavily from a lack of doctors. There are long lines in all countries, so the patient is not welcome anywhere. Who is the winner in a system like this? We know from the Soviet experience that the winners are those who have access to services, through bribes or telephone calls to familiar doctors. This is corruption, a degenerated model, a prototype of a Soviet system if you wish.

- What do you think is the role of civil society organizations and the Lithuanian Medical Alliance?

- Civil society organizations find themselves in a difficult position because there is much antagonism between doctors themselves within this system. Who are the largest and the strongest group in the system? They are doctors who have authority, doctors who dispense money

and have solid patients paying bribes, doctors who receive the latest equipment and, lastly, political protection. And they hold down the other part who cannot make careers or obtain better jobs or earn higher salaries.

These are two sides of the barricade, so to speak. One of them is interested in maintaining the system at the expense of the other. The other would welcome reforms I have talked about, but today the reform proponents do not belong to the elite of the system because they do not have authority. Those who attempt to change the system are promptly forced to quit. In this case we have a silent conspiracy of the medical elite with politicians, people who also fall ill and want quality treatment. The suppressed part of the medical world is afraid to change this system. The problem is the same as with lawyers whose salaries were raised for the very same reason. So the situation is double-edged. The flank of new-generation doctors - those who wish to work in Lithuania - should gain strength.

- Thank you.

Interviewed by Kestutis Janulis

OPINION

The following article appeared on the 1st of June, 2006, in a monthly column of the Lithuanian Free Market Institute entitled "What Would F. Bastiat Say?" in the leading Lithuanian weekly 'Veidas.' It deals with a popular hysteria about non-discrimination which is spreading also into Lithuania at an astonishingly fast pace.

(Non)-discrimination: Can a pig's heart love?

By Giedrius Kadziauskas, Senior Policy Analyst, LFMI

Discriminophobia - a neologism passed round recently by a Lithuanian lawyer - is a spot-on definition of the fear not to discriminate someone unintentionally. A prohibition on discrimination on the basis of age, sexual orientation, disability, religion, race or ethnicity in employment, education or other spheres of services is enshrined in Lithuanian laws and is taking root in society. Yet, comical and contentious discrimination cases make one think that something is wrong here.

In 2003 a Dane, an owner of a small pizzeria on the island of Fanø, was penalized for refusing to serve French and German tourists on the ground that Germany and France failed to support their allies in the invasion of Iraq aimed at overturning Saddam Hussein. He was fined 5,000 Danish kroners (app. 670 Euros) for racial discrimination, lost some of his clients and was assaulted

by vandals and finally jailed for non-payment. Despite this he had a clear conscience, he said, as he felt he had to behave as he had done.

Lithuania's equal opportunities ombudsman has on the table a complaint from a florist's firm against a rival business whose black courier sells twice as many delivery services than their white courier does. The ombudsman has made a preliminary statement that this is an obvious case of racial discrimination but it can be hard to prove. The Ombudsman will have a difficult task to prove that consumers behave foolishly when they pay twice as much for the same service and that it is not the consumers who are the actual discriminators when they prefer the black courier. The ombudsman will have to explain the case so that people believe the whole (non-)discrimination drive has a serious ideological basis, that it is not yet another political-cultural fashion which Lithuania is diligently following to the letter of EU directives.

Yet, a serious logical justification is lacking. From the very beginning the ban on discrimination was aimed to establish equality of all before the law and before the authorities. Today's hysteria is increasingly prohibiting discrimination in private relations among private individuals. However, relations between people in the matters of love, money and friendship, the argument goes, are nothing but discrimination. We buy cheap products and discriminate against expensive goods; we discriminate against the unreliable, the ugly, the pretty, the red, the green, the high, the low, etc. etc. Everyone of us discriminates as we choose what goals to pursue, what needs to satisfy and by what means to achieve that. The same goes for both persons and firms.

Consumers are being constantly discriminated as they do not have enough money to buy expensive goods, while retail chains discriminate against people in small towns by not building supermarkets there. The equal opportunities ombudsman has recently resolved that higher motor vehicle civil liability insurance premiums charged on young persons are discrimination on the basis of age. Insurance companies claim that younger drivers are a greater risk, so they themselves should carry the burden of higher premiums. Unfortunately, with this decision all the insured will have to pay for the risk that young drivers pose.

The number of human qualities on which the law puts a discrimination ban is increasing. The equality-before-the-law attitude towards man regarding one's opinion, religion or nationality originates in the works of the thinkers of the 16th century. The obligation of non-discrimination on the basis of sex and sexual orientation was established only in the past decades. Because of technological changes, today's discussions about what a (real) man is may spawn a new basis for non-discrimination. Is a test-tube baby or a man with electronic brain or a brain with a mechanical body a man with all ensuing consequences and a right to non-discrimination?

Are we close to having a case at the Vilnius district court in which a man/woman will charge his or her spouse for

getting divorced on the ground that he or she cannot love because of a transplanted pig's heart.

OUTLOOK

In this article LFMI's President Dr. Remigijus Šimašius looks into the problem of home-schooling, a seemingly formidable and "criminal" occupation in Europe, as one recent case shows... This writing was published on the 7th of July, 2006 in the Lithuanian weekly 'Veidas' (in LFMI's monthly column "What Would F. Bastiat Say?").

Does the State Own Our Children?!

By Dr. Remigijus Šimašius, President, LFMI

The epoch of Enlightenment has spread the idea that universal education is a necessity. The mass drive for education and the ideology advocated by the Prussian state which demanded obedient citizens brought compulsory universal education. Education shall be compulsory for persons under the age of 16, the Constitution of the Republic of Lithuania says. Yet, you are wrong if you think that this is the end of the glorious path. The question how to achieve compulsory universal education is relevant and open today.

The European fashion in this area is still being dictated by... Adolf Hitler. This is easy to check: all you need to do is to judge whether a child's education is a monopoly of the state or the right of the parents. This will show whether there are many Mark Twains among us who would be able to say „I've never let my school interfere with my education.” Unfortunately, a ban on home-schooling, which Germany imposed in 1938, remains in effect, and Baptists, who were persecuted in the Soviet Union and moved to Germany, are even sent to prison for being discontent with German state-run schools.

Little by little the whole Europe is turning in this direction. An obvious example of this occurred even in Belgium which is known for being much more liberal on this issue. An exemplary family, whose four home-schooled children successfully entered leading universities, and earlier than their contemporaries to boot, was threatened with criminal penalties for educating their fifth offspring at home. It appears that the home-school father did not sign a document that the upbringing of the children would be in accordance with the Convention on the Rights of the Child. So, in the name of the Convention and for the children's good, the parents, who are far from being asocial, may come to be taken to court on criminal charges.

The massively ratified Convention (and again only the United States, where about one million children receive home-schooling, has withstood this drive) stipulates the

rights of the child to freedom of association and religion. This already raises a question whether parents' decision not to send their children, say, to a course on sex education without having consulted their youngsters first is not a violation of the Convention. Of course, a question whether the state-defined obligatory contents of teaching is not a violation of children's rights is not raised. All this shows who is the real guardian of children – their parents or the state. If you send off your child to a public school, the school assumes an obligation to educate him or her in a certain manner, but if you decide not to send your child to school, you have to make an obligation towards the state...

Lithuanians have a rather painful experience of public education. The Lithuanian script has been preserved only thanks to illegal home-schooling in the 19th century. If the totalitarian practice were restored, the tradition of home-schooling, which can resist it, would be seriously damaged already. The Law on Education explicitly says that parents must send their six- or seven-year-old children to school and ensure their punctual and regular attendance. So even if you happen to be a very devoted mum or dad capable of giving your child all necessary knowledge, the authorities do not give a damn about it. It is no secret that at school your child might hear a horrible accent of the English language teacher or might have no proper facilities to wash up after exercises or might be exposed to socialist propaganda during economics classes. You cannot even dream of training your child yourself or hiring a teacher to do the job. Or you can do it quietly at home until your child has to take exams. The right to take equivalency exams has been left so far.

Given today's dimension of educational progress, it is a question of time when children will be coercively sent to school at the age of five or even four. After all, universal pre-school education, albeit optional as yet, is *de facto* becoming an obligatory condition of primary education. And if a certain condition is required to achieve something compulsory, pre-school education will also become compulsory. Some European countries have already turned in this direction towards younger and younger children. One day the parents may come to be required, upon the birth of a child, to sign a contract for use with the state under which they will raise the child until he or she turns four and then return him or her to the society.

Of course, both the Convention on the Rights of the Child and universal compulsory education and mandatory school attendance are for the child's sake. Yet, the road to hell is paved with good intentions too. And these good intentions leave us no right to choose. It is not us but the state that is made responsible for our children. And the state, as we all know, is more interested in „good citizens” than independent individuals.

OVERVIEW

In this article LFMI's Policy Analyst and Representative in Brussels Monika Kačinskienė analyses the situation with the sea-port sector in the EU, a specific and yet extremely closed market. The author sheds light on potential merits of a port services' Directive, however, voted down twice by the European Parliament, and presents LFMI's solutions for the only Lithuanian seaport in Klaipėda. The article was published in the Vakaryų ekspresas daily, a leading broadsheet in the Klaipėda region, on the 22nd of June, 2006. Currently, transport policy is one of the strategic areas of LFMI's activity.

Liberalizing Seaport Services: Why not Outstrip Brussels?

By Monika Kačinskienė, Policy Analyst, Representative in Brussels, LFMI

Everybody clapped their hands when most of the EU member-states had finally okayed a compromised version of the Services Directive. They clapped even though the directive had become so pitiful and ineffective in the end that there was hardly anything to exult at. They clapped because with such a bitter opposition against anything concerning liberalization of services, even the adoption of a worn-out document like this was a glorious event.

Yet, entry to certain specific and extremely closed markets meets with an even greater resistance than the joint services package. Let us take as an example seaport services which also gather crowds of demonstrators outside European institutions and still owe the European Parliament several broken windows.

Despite the freedoms and competition rules enshrined in the founding Treaty, the seaport sector still poses high barriers to market entry denying a level playing field for new players. A lack of competition undermines both the quality and the prices. Attempts have been made to resolve this at the European level for several years now but to no effect as yet. Unlike the compromised Services Directive, a port services' Directive, whose adoption would open up the seaport sector, was voted down a second time by the European Parliament.

The European Commission has set out to fill in an obvious hole in the internal market and to make the continental seaports more competitive and attractive *and* by doing so to enhance their role in the transportation chain. To achieve that, it has announced the start of another reflection process (a so much-liked procedure Europe-wide), this time on the future of the European policy framework for seaports. It is realized that Europe's closed and obscure port services market has to be liberalized. Now they are reflecting on how to do that.

Is it worth waiting and contemplating in Lithuania together with the whole Europe? Wouldn't it be wiser to start liberalization while all others are shilly-shallying and waiting for a new document to come up?

Common problems in European seaports

European seaports are generally regarded as one of the most obscure industries. First of all, they lack financial transparency. Many European ports are a mixture of private and public capital where real prices of services get obscured in the maze of cross- and direct subsidies, government tariff regulation, exclusive monopoly rights of private companies, and investment regulations. Barriers to market entry, the regulation of existing port service providers and public interests in the commercial seaport activities are just as unclear.

Today most of the ports represent a structure of private and public ownership with the germ of competition, but despite that, with the state stifling and dampening private initiatives. Interestingly, the activities of many of the largest European commercial seaports continue to be financed with the taxpayers' money.

High barriers to market entry that are erected by public port authorities - an issue that was seriously addressed in the withdrawn port services' Directive - are one of the main drags on the work of "European" seaports. There are certain types of port services that are still considered to be "natural" monopolies and where giving the go-ahead to private initiative is not discussed at all. These are sea entrance infrastructure, general services in the berth, mooring provision, and others. Yet, even most of the services that are widely recognized as commercial ones continue to be rendered by one undertaking, usually picked by the port authority through a selection procedure and not a public tender. Some services are provided by state-run companies operating in this peculiar whirl of public and private interests.

Due to their "exclusive" nature and usually small markets, plus safety concerns, technical maritime services in many seaports are still provided by public undertakings or private companies that enjoy exclusive rights. (In all but four European seaports there is a single, usually state-run pilotage provider, although pilotage is widely regarded as a purely commercial service today.). This creates another chain of problems: charges on such services are set by government authorities; cross-subsidies are a common practice; the ratio between tariffs and proceeds is unknown; and there is ample opportunity for the abuse of the dominant position and for raising fees.

In this rather gloomy context the Klaipėda seaport fares not so badly. The seaport is quite young and liberal. It is young because it was restructured not so long ago. And it is really liberal because the private sector plays quite a prominent role there if compared with some other seaports in the continent. There are more providers of the "exclusive" maritime services, towage and mooring, in Klaipėda than in other seaports on average.

On the other hand, the Klaipėda port suffers badly from a lack of financial transparency (which is caused by government tariff regulation, (cross) subsidies and the state playing a major investment role), a lack of direct links between the consumer and the seaport administrator, a continuously and highly closed market (pilotage services are still handled by the port authority, while pilotage fees are set by the Ministry of

Transportation), and extensive regulation that erodes effectiveness of the port activity. So the Klaipeda seaport is afflicted, only on a smaller scale perhaps, with the same painful operational bottlenecks that are typical of modern European ports.

A Liberal Klaipeda Seaport: With or Without a Directive?

The port services' Directive was tailored to address the above problems, to guarantee a free movement of services once already stipulated in the founding Treaty and to ensure free entry to the seaport market. Indeed, the system would become more flexible if some of the measures that were defined in the directive were simplified and adjusted for ports. Flexibility could be enhanced (and prices lowered) by opening the market to new entrants and eliminating limitations of the number of service providers, by delegating the function of granting authorisations to an independent institution, by allowing self-handling (especially with a vessel's crew), and by spelling out the guidelines on state aid.

One of the key proposals delineated in the withdrawn directive – abolishing limitations of the number of service providers – can (and must) be easily implemented at the port level. Some countries have already gone along these lines, but the Klaipeda seaport authority continues to use this regulation at its own discretion. Private undertakings cannot enter the scene freely without being given permission from the port authority. In addition to that, clashes of interests and influences are possible in the selection process.

In order to have a more transparent seaport and fair competition among port service providers, it is essential to allow private undertakings to freely enter the market without a selection procedure and approval from the port authority (for safety considerations a specific regime might be applied only to pilotage services which require special knowledge and skills). It is equally important not to limit the number of service providers. A model like this has long served and shown a good performance in the nearby port of Copenhagen.

The directive proposed limiting the number of port service providers only in highly exceptional cases (e.g. for reasons or constraints relating to available space) and delegating this authority to independent institutions. Yet, it would be simpler and wiser not to highlight exemptions so that they do not become rules one day. Some small seaports cannot accommodate more than one service provider, while too big a congestion might impair the effectiveness of service provision in the short-term. Yet, even with space restrictions in place, it is crucial to open up the market and, by doing so, to prevent monopolistic practices of the existing port service providers.

The mechanism of seaport activity, especially the bureaucratic authorisation granting and re-licensing procedures, should not be entangled with new regulations. This could happen in rearranging the system for issuing authorisations in accordance with the directive. The directive defined a much-needed objective to have authorisations issued quickly and effectively, but it was not clear what this meant and what terms were implied. Still, the proposed authorisation requirement was

no better than that applied in the Klaipeda seaport today. And the competent authority responsible for granting permissions was given almost as much power as the port authority wields today, not to mention several other regulations posing additional drags on the system. All this should be avoided if the aim is to create a more flexible system and a more attractive seaport.

It is equally important to reduce the state's role in the port management by delegating decision making to a board composed of seaport companies. State investment should be limited, and the guidelines on state aid should be spelled out in order to prevent irrational and ineffective investment decisions. Today's practice of ad hoc financing of investment projects distorts competition. On the other hand, the opposite principle of equality (which means providing state funding for all) would support unprofitable projects. In any case, the state's active but unspecified participation in investment projects frequently results in failure.

The abolition of the existing pointless ban on sublease would also act as a spur to greater seaport activity and flexibility. Today port land users may not sublet land plots even if such rental agreements would be commercially beneficial for the company and for the seaport development. Or if some unused land plots would be put to other uses and bring objective improvements into the seaport infrastructure. After all, at some time or other a company may find some of its resources useless or commercially profitless, so it would be wiser to sublet them for a certain period of time rather than keeping them out of use. By putting such resources to use, other companies could create value added. Also, opportunities might open up for businesses that are ready to expand their business activities but do not wish or do not have resources for long-term investments in the seaport.

Most importantly, all this could be achieved without adopting a separate directive. We can have an open and competitive seaport without specific instructions from Brussels. While all others are reflecting on whether they have to move on and if so, in what direction, the Klaipeda seaport might forge far ahead. After all, we ourselves can create equal conditions for market entry, boost investments and improve the quality of port services, increase the effectiveness and flexibility of service provision, lower costs, and enhance transparency.

We can and should accomplish many of the goals defined in the EU transport policy of seaport liberalization with our own efforts. Even if Brussels comes up with a new liberal initiative, its final version is very likely to be as bad as the present Services Directive, a document that will hardly give any visible stimulus to the market.

COMMENTARY

LFMI's president Dr. Remigijus Šimašius presents the findings of a survey initiated by LFMI and conducted in partnership with Lithuanian business and bar associations. The survey aimed to figure out whether the implementation of EU requirements has been as smooth in Lithuania as reports show... The commentary was broadcast on the Lithuanian national radio on the 21st of June, 2006.

Are We Listening to the European Union or Fooling Around?

By Dr. Remigijus Šimašius, President, LFMI

We joined the European Union only two years ago, but we have been living to its rhythm for the past decade at the least. We have got used to local authorities acting under a cloak of the European Union. They keep saying the European Union requires or forbids this or that therefore we do as we are told. Lithuania carried out an array of reforms, including all kinds of restructuring, changes to regulation and new regulations, only because the European Union required so. Yet, many reforms remain unfulfilled also because of the European Union. For example, a corporate income tax reform, which gave positive results for two years, was revoked. Estonia kept it, but Lithuania for some reason not, although both countries came under a similar amount of pressure from the European Union.

Recently an initiative has been launched to figure out whether the implementation of EU requirements has been as smooth in Lithuania as reports show. Reportedly, Lithuania has been transposing EU *acquis communautaire* faster than any other member-state. Unfortunately, practical evidence shows that this fast process has not been devoid of serious mistakes.

For one thing, EU law is quite often used as a cover for pushing "needed" rather than required decisions. Let us take as an example draft amendments to the Law on Copyright and Related Rights which are currently under discussion in parliament. A leading document of this proposal explicitly says that the amendments in question are necessary to bring the law in line with EU directives. Yet, a closer look at some specific provisions of the law shows that this is not quite so.

One of the most "required" amendments that were declined by the government is taxation of equipment possessing reproduction capacity and an increase of taxes charged on various media. This means we will have to pay more for copy machines, fax machines, tape-recorders, CDs, and other electronic media. Tax proceeds will be used to compensate authors for their lost income. Copyright holders, the argument goes, sustain losses because the law allows reproduction of any legally acquired production in a single copy. Yet, the EU law does not require the member-states to

compensate authors for their allegedly lost income! So this is hardly a slip-up... Rather, some interests have conditioned that a provision ostensibly required by the European Union has been tucked in for the law-makers among other proposals that will make all consumers pay more for some goods for no reason at all.

Debates on the Law on Public Procurement are another example. The EU law stipulates that public procurement regulations can be disregarded in some cases (mind, can!). Yet, this provision was presented as a requirement. Professedly, the EU law requires so...

The transposition of European regulation into the Lithuanian law is beset with other flaws. Recommendations are often presented as requirements. Provisions that should be prescribed by law are laid down in ministerial documents. In some cases when various options are possible, alternatives are not even named or seriously discussed; instead, priority is given to the strictest regulation. Information is lacking about what is required and why a given requirement is fulfilled in one way and not another.

I am sorry to say but Lithuania will not go far with a practice like this. We will be regulated as much as Western Europe, while bureaucracy will remain the same as in the Soviet times. Such a cocktail of regulation and misadministration can put off many having to deal with the authorities. Recipes for such cocktails are often contrived in the European Union, but cocktails themselves are almost always shaken in Lithuania. The European Union allows various policies and you can easily see it if you look across the member-states. Out of the old member-states it is obviously the United Kingdom and Ireland, but not France or Greece, that fare better. If we take the new member-states, Estonia has outperformed Poland.

In short, what we will obtain from the European Union – great opportunities and a push for market reforms or regulations and stagnation - depends on ourselves.

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If you don't create a free market, a black market will emerge

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